STEP energy services

TSX STEP

Condensed Consolidated Interim Financial Statements

As at and for the three and nine months ended September 30, 2021

STEP ENERGY SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

As at Unaudited (in thousands of Canadian dollars)	Notes		September 30, 2021		December 31, 2020
ASSETS					
Current Assets					
Cash and cash equivalents		$	2,337	$	1,266
Trade and other receivables	12		88,307		63,471
Income tax receivable			1,329		1,960
Inventory			23,744		26,990
Prepaid expenses and deposits			12,899		5,782
			128,616		99,469
Property and equipment	3		342,868		368,164
Right-of-use assets	4		11,305		11,453
Intangible assets			424		773
		$	483,213	$	479,859
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities					
Trade and other payables(1)	8,12	$	68,911	$	48,816
Income tax payable			-		88
Current portion of lease obligations	4		5,499		5,919
Current portion of loans and borrowings	5		20,963		-
			95,373		54,823
Deferred tax liabilities			1,104		3,830
Lease obligations	4		6,792		6,798
Other liabilities(1)	8		4,647		2,199
Loans and borrowings	5		191,638		207,630
			299,554		275,280
Shareholders' equity					
Share capital	7		435,879		431,798
Contributed surplus	8		30,499		32,371
Accumulated other comprehensive income (loss)			2,598		3,812
Deficit			(285,317)		(263,402)
			183,659		204,579
		$	483,213	$	479,859

(1) See Note 1 for the reclassification of certain 2020 balances.

See accompanying notes to the condensed consolidated interim financial statements

See Note 6 – Commitments
See Note 13 – Contingencies and provisions

STEP ENERGY SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF NET LOSS AND OTHER COMPREHENSIVE INCOME (LOSS)

Unaudited (in thousands of Canadian dollars, except per share amounts)	Notes	For the three months ended September 30, 2021	2020	For the nine months ended September 30, 2021	2020
Revenue		$ 133,235	$ 62,363	$ 377,593	$ 297,377
Operating expenses	2,10	125,471	67,301	366,281	317,208
Gross profit (loss)		7,764	(4,938)	11,312	(19,831)
Selling, general and administrative expenses	2,10	7,540	6,768	26,009	22,522
Results from operating activities		224	(11,706)	(14,697)	(42,353)
Finance costs, net	11	3,908	3,453	10,428	11,315
Foreign exchange (gain) loss		(362)	(891)	(410)	304
Gain on disposal of property and equipment		(146)	(2,022)	(331)	(3,037)
Amortization of intangible assets		116	130	343	391
Impairment of property and equipment	3	-	-	-	72,345
Loss before income tax		(3,292)	(12,376)	(24,727)	(123,671)
Income tax (recovery) expense					
Current		(202)	108	(137)	(957)
Deferred		298	(2,722)	(2,675)	(20,400)
		96	(2,614)	(2,812)	(21,357)
Net loss		(3,388)	(9,762)	(21,915)	(102,314)
Other comprehensive income (loss)					
Foreign currency translation gain (loss)		3,691	(4,292)	(1,214)	7,302
Total comprehensive income (loss)		$ 303	$ (14,054)	$ (23,129)	$ (95,012)
Loss per share:					
Basic	9	$ (0.05)	$ (0.14)	$ (0.32)	$ (1.52)
Diluted	9	$ (0.05)	$ (0.15)	$ (0.32)	$ (1.52)

See accompanying notes to the condensed consolidated interim financial statements

STEP ENERGY SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

Unaudited (in thousands of Canadian dollars)	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
Balance at January 1, 2020		$ 428,817	$ 32,198	$ 5,852	$ (144,044)	$ 322,823
Net loss for the period		-	-	-	(102,314)	(102,314)
Foreign currency translation loss		-	-	7,302	-	7,302
Share-based compensation	8	-	2,332	-	-	2,332
Exercise of equity share-based compensation	7,8	1,132	(900)	-	-	232
Balance at September 30, 2020		$ 429,949	$ 33,630	$ 13,154	$ (246,358)	$ 230,375
Balance at January 1, 2021		$ 431,798	$ 32,371	$ 3,812	$ (263,402)	$ 204,579
Net loss for the period		-	-	-	(21,915)	(21,915)
Foreign currency translation loss		-	-	(1,214)	-	(1,214)
Share-based compensation	8	-	2,209	-	-	2,209
Exercise of equity share-based compensation	7,8	4,081	(4,081)	-	-	-
Balance at September 30, 2021		**$ 435,879**	**$ 30,499**	**$ 2,598**	**$ (285,317)**	**$ 183,659**

See accompanying notes to the condensed consolidated interim financial statements

STEP ENERGY SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

Unaudited (in thousands of Canadian dollars)	Notes	For the three months ended September 30, 2021	For the three months ended September 30, 2020	For the nine months ended September 30, 2021	For the nine months ended September 30, 2020
Operating activities:					
Net loss		$ (3,388)	$ (9,762)	$ (21,915)	$ (102,314)
Adjusted for the following:					
Depreciation and amortization	3,4	17,595	20,013	54,005	69,190
Share-based compensation	8	285	921	6,658	1,988
Unrealized foreign exchange (gain) loss		(533)	(530)	(667)	518
Gain on disposal of property and equipment		(146)	(2,022)	(331)	(3,037)
Impairment of property and equipment	3	-	-	-	72,345
Finance costs	11	3,908	3,453	10,428	11,315
Income tax expense (recovery)		96	(2,614)	(2,812)	(21,357)
Cash finance costs paid		(3,757)	(3,450)	(9,296)	(11,850)
Cash income taxes recovered		635	5,292	679	8,270
Changes in non-cash working capital from operating activities		(23,841)	(29,682)	(14,269)	19,107
Net cash (used in) provided by operating activities		(9,146)	(18,381)	22,480	44,175
Investing activities:					
Purchase of property and equipment	3	(7,660)	(1,338)	(25,538)	(14,008)
Proceeds from disposal of equipment and vehicles		842	3,205	913	6,493
Changes in non-cash working capital from investing activities		2,854	537	3,683	(5,816)
Net cash (used in) provided by investing activities		(3,964)	2,404	(20,942)	(13,331)
Financing activities:					
Issuance (repayment) of loans and borrowings	5	14,125	10,531	4,213	(25,410)
Repayment of finance lease obligations		(1,665)	(1,425)	(4,652)	(4,966)
Net cash provided by (used in) financing activities		12,460	9,106	(439)	(30,376)
Impact of exchange rate changes on cash and cash equivalents		13	(159)	(28)	498
(Decrease) increase in cash and cash equivalents		(637)	(7,030)	1,071	966
Cash and cash equivalents, beginning of period		2,974	15,263	1,266	7,267
Cash and cash equivalents, end of period		$ 2,337	$ 8,233	$ 2,337	$ 8,233

See accompanying notes to the condensed consolidated interim financial statements

STEP ENERGY SERVICES LTD.

Notes to the condensed consolidated interim financial statements

(unaudited)

As at and for the three and nine months ended September 30, 2021 and 2020.

Tabular amounts expressed in thousands of Canadian dollars, except where otherwise noted.

NOTE 1 – NATURE OF BUSINESS AND BASIS OF PREPARATION

STEP Energy Services Ltd. (the "Company", "STEP Energy Services" or "STEP") is a publicly traded company domiciled in Canada, incorporated under the laws of the Province of Alberta on March 25, 2011 and is listed under the symbol "STEP" on the Toronto Stock Exchange. The registered office of the Company is 4300, 888 - 3rd Street SW, Calgary, Alberta T2P 5C5 and the principal place of business is 1200, 205-5th Ave SW, Calgary, Alberta T2P 2V7. STEP provides specialized coiled tubing and associated pumping and fracturing equipment to service the oil and gas industry in Canada and the United States ("U.S.").

Statement of compliance

These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The same accounting policies and methods of computation are followed in these interim financial statements as compared with the last annual financial statements. These condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements as at and for the year ended December 31, 2020.

These condensed consolidated interim financial statements were approved by the Board of Directors ("Board") on November 3, 2021.

Certain comparative figures have been reclassified to conform to the financial statement presentation for the current period. $1.8 million of deferred share units were reclassified from trade and other payables to other liabilities as at December 31, 2020.

Seasonality of operations

The Company's Canadian business is seasonal in nature with the periods of greatest activity being in the first, third and fourth quarters, and the least activity tending to be in the second quarter because of spring break-up. Spring break-up typically occurs between March and June. The Company's operating activities can also be affected by extended periods of adverse weather which can result in restrictions to the movement of heavy equipment. Activity in the southern United States is generally not as influenced by seasonal conditions.

Critical accounting estimates and judgments

The preparation of the condensed consolidated interim financial statements requires management to make certain estimates and judgments concerning the reported amount of revenue and expenses and the carrying values of assets and liabilities. These estimates are based on historical experience and management's judgment. The estimation of anticipated future events involves uncertainty and therefore the estimates used by management in the preparation of the condensed consolidated interim financial statements may change as events unfold, additional knowledge is acquired or the environment in which the Company operates changes.

COVID-19 and Liquidity

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. COVID-19's impact on global markets was significant through the year and as the situation continues to evolve, the magnitude of the effects on the economy, STEP's operations, employees and financial performance continues to be uncertain. During the third quarter of 2021, the resurgence of COVID-19 and its variants resulted in governments reintroducing restrictions to manage the spread of the virus. It is expected that there will continue to be periodic and isolated public health measures worldwide to manage the spread of COVID-19 variants.

Management continues to monitor the COVID-19 situation and should the duration, spread and intensity of the pandemic continue to develop throughout the remainder of 2021, further negative impacts on supply chains, market pricing and client programs and employees can be expected. These factors may impact STEP’s operating plan, liquidity and cashflows, and the valuation of long-term assets.

NOTE 2 – GOVERNMENT GRANTS

Due to COVID-19 (see Note 1 – *COVID-19 and Liquidity*) the Government of Canada implemented the COVID-19 Economic Response Plan. Under the plan, the Company is eligible for the Canada Emergency Wage Subsidy (“CEWS”) in which Canadian businesses impacted by COVID-19 may be eligible for wage subsidies for any week retroactive from March 15, 2020 to October 23, 2021. The program is currently divided into four week periods. CEWS was primarily calculated using a sliding scale of subsidy based on overall revenue reductions in each period. For the three months ended September 30, 2021, the Company has recognized $1.1 million (September 30, 2020 - $4.5 million) in grants under the CEWS as a reduction of employee costs of $1.2 million (September 30, 2020 - $3.8 million) in operating expenses and ($0.1) million (September 30, 2020 - $0.7 million) in selling, general, and adminstrative expenses. For the nine months ended September 30, 2021, the Company has recognized $6.8 million (September 30, 2020 - $7.6 million) in grants under the CEWS as a reduction of employee costs of $6.4 million (September 30, 2020 - $6.4 million) in operating expenses and $0.4 million (September 30, 2020 - $1.2 million) in selling, general, and adminstrative expenses.

NOTE 3 – PROPERTY AND EQUIPMENT

		Land and buildings		Vehicles		Field equipment		Office equipment		Total
Cost:										
Balance at January 1, 2020	$	37,032		667		698,368		8,553		744,620
Additions		304		-		17,281		241		17,826
Disposals		-		(41)		(6,822)		-		(6,863)
Reclassification of assets held for sale		752		-		614		-		1,366
Effect of exchange rate changes		(253)		-		(6,356)		(25)		(6,634)
Balance at December 31, 2020	$	37,835	$	626	$	703,085	$	8,769	$	750,315
Additions		941		-		24,489		108		25,538
Disposals		(781)		(55)		(7,687)		(10)		(8,533)
Effect of exchange rate changes		(63)		-		(1,162)		(4)		(1,229)
Balance at September 30, 2021	$	37,932	$	571	$	718,725	$	8,863	$	766,091
Accumulated depreciation:										
Balance at January 1, 2020	$	5,212	$	657	$	224,940	$	6,766	$	237,575
Depreciation		1,537		12		78,750		696		80,995
Impairment		3,902		-		67,702		246		71,850
Disposals		-		(35)		(3,826)		-		(3,861)
Effect of exchange rate changes		(55)		(8)		(4,326)		(19)		(4,408)
Balance at December 31, 2020		10,596	$	626	$	363,240	$	7,689	$	382,151
Depreciation		1,233		-		47,305		489		49,027
Disposals		(119)		(47)		(7,521)		-		(7,687)
Effect of exchange rate changes		1		(8)		(267)		6		(268)
Balance at September 30, 2021	$	11,711	$	571	$	402,757	$	8,184	$	423,223
Carrying amounts:										
As at December 31, 2020	$	27,239	$	-	$	339,845	$	1,080	$	368,164
As at September 30, 2021	$	26,221	$	-	$	315,968	$	679	$	342,868

Included in field equipment at September 30, 2021 were maintenance capital projects underway of $9.1 million (December 31, 2020 - $2.5 million). Maintenance capital projects underway are not depreciated until they are substantially complete and available for use.

During the second quarter of 2020, the Company recorded a non-cash impairment charge with respect to property and equipment in its U.S. fracturing cash generating unit ("CGU") of $13.1 million and a write down of specific assets held for sale of $0.5 million. During the first quarter of 2020, the Company recorded a non-cash impairment charge with respect to property and equipment in its Canadian fracturing CGU of $58.8 million. At September 30, 2021, the Company performed an assessment of external and internal indicators of impairment or reversal of previous impairments and determined that there have been no indicators that require an impairment or impairment reversal test.

NOTE 4 – RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

		Buildings		Vehicles		Office equipment		Total
Balance at January 1, 2020	$	9,002	$	22,448	$	270	$	31,720
Additions		3,431		938		9		4,378
Disposals		(744)		(10,912)		-		(11,656)
Effect of exchange rate changes		(362)		(99)		(1)		(462)
Balance at December 31, 2020	$	11,327	$	12,375	$	278	$	23,980
Additions		825		3,976		-		4,801
Disposals		-		(855)		-		(855)
Effect of exchange rate changes		(16)		(20)		-		(36)
Balance at September 30, 2021	**$**	**12,136**	**$**	**15,476**	**$**	**278**	**$**	**27,890**
Accumulated depreciation:								
Balance at January 1, 2020	$	2,225	$	10,632	$	70	$	12,927
Depreciation		2,931		4,385		74		7,390
Disposals		(705)		(6,904)		-		(7,609)
Effect of exchange rate changes		(63)		(115)		(3)		(181)
Balance at December 31, 2020	$	4,388	$	7,998	$	141	$	12,527
Depreciation		2,251		2,334		50		4,635
Disposals		-		(578)		-		(578)
Effect of exchange rate changes		11		(9)		(1)		1
Balance at September 30, 2021	**$**	**6,650**	**$**	**9,745**	**$**	**190**	**$**	**16,585**
Carrying amounts:								
As at December 31, 2020	$	6,939	$	4,377	$	137	$	11,453
As at September 30, 2021	**$**	**5,486**	**$**	**5,731**	**$**	**88**	**$**	**11,305**

With respect to the right-of-use assets above, the Company has lease contracts for light duty vehicles, office buildings, service centers and copiers. The maturity date of these contracts ranges from November 2021 to January 2026 with interest rates ranging from 2.74% to 12.14% per annum. Lease payments made by the Company are blended interest and principal payments. The Company's lease obligations are as follows:

As at		September 30, 2021		December 31, 2020
Future minimum lease payments	$	13,241	$	13,868
Discount		(950)		(1,151)
Present value of minimum lease payments	$	12,291	$	12,717
Presented as:				
Current portion of lease obligations	$	5,499	$	5,919
Lease obligations	$	6,792	$	6,798

NOTE 5 – LOANS AND BORROWINGS

As at September 30, 2021, the Company's Credit Facilities with a syndicate of lenders were comprised of a Canadian $200.0 million term loan facility, a Canadian $30.0 million revolving facility, a Canadian $10.0 million operating facility and a U.S. $15.0 million operating facility (together the "Credit Facilities"). The Company entered into a Second Amending Agreement on August 3, 2021 to extend the maturity date of the Credit Facilities to July 30, 2023, and to amend and extend the Covenant Relief Period (as defined in the Credit Facilities) to June 30, 2022 to permit a maximum Funded Debt to Adjusted Bank EBITDA Ratio of 3.50:1, and a maximum Interest Coverage Ratio of 3.00:1 for the fiscal quarter ending June 30, 2022. The amended Credit Facilities include a general security agreement, providing a security interest over all present and after acquired personal property of the Company and all its subsidiaries including mortgages on certain properties. Any current and future leases that would have been accounted for as an operating lease at December 31, 2018 will continue to be recognized as operating leases for purposes of calculating financial covenants.

Scheduled quarterly repayments of the term loan facility of $7.0 million per quarter commence on March 31, 2022. The balance is due on the maturity date. The sum of any amounts outstanding under the revolving facility, the Canadian operating facility and the U.S. operating facility may not exceed the Borrowing Base. The Borrowing Base is defined as the aggregate of: (1) 85% of U.S. and Canadian based investment grade eligible accounts receivable under 120 days from the invoice date, (2) 75% of U.S. and Canadian based non-investment grade eligible accounts receivable under 90 days from the invoice date and (3) 50% of U.S. and Canadian based eligible inventory subject to a maximum of $10 million Canadian less priority payables and certain liquidity requirements (see item five below). At September 30, 2021, the Company's borrowing base was $59.0 million compared to $49.3 million as at December 31, 2020. Mandatory repayments are required anytime the amount outstanding under the revolving facility and Canadian and U.S. operating facilities exceeds the borrowing base. As amended August 3, 2021, the Credit Facilities include certain financial and non-financial covenants, including:

1. A Funded Debt to Tangible Net Worth ratio. This refers to the ratio of total outstanding interest-bearing debt including lease obligations and letters of credit less cash and cash equivalents held with approved financial institutions to the sum of shareholders' equity plus subordinated Debt, less all assets considered intangible (leasehold improvements, goodwill, intangibles etc.). The Company is required to meet the following Funded Debt to Tangible Net Worth ratios:

Quarters Ended	Funded Debt to Tangible Net Worth ratio maximum permitted
September 30, 2021	1.75:1
December 31, 2021 and thereafter	Not Tested

As at September 30, 2021, STEP's Funded Debt to Tangible Net Worth ratio was 1.19:1.

2. A Minimum Quarterly Adjusted Bank EBITDA covenant. Adjusted Bank EBITDA means, the Net Income (Loss) on a consolidated basis plus or minus: interest expense, the provision for income taxes, depreciation, amortization, deferred income tax expense or recovery, gains or losses on the sale of assets, allowance for doubtful account provisions, non-cash impairment charges, unrealized foreign exchange gains or losses and marking to market hedging instruments, discretionary management bonuses, severance and share based compensation, and any non-typical and non-recurring transactions. Lease expense for current and future finance leases, which would have been accounted for as an operating lease at December 31, 2018, is deducted from net income (loss) when calculating Adjusted Bank EBITDA. The Company is required to meet the following Adjusted bank EBITDA:

Quarters Ended		Adjusted Bank EBITDA minimum permitted (000's)
September 30, 2021	$	7,869
December 31, 2021 and thereafter		Not Tested

As at September 30, 2021, STEP's Quarterly Adjusted Bank EBITDA was $19,268.

3. An Interest Coverage Ratio. This refers to the ratio of Adjusted Bank EBITDA to interest expense for the preceding twelve months. Interest expense includes interest charges, capitalized interest, interest on lease obligations, fees payable in respect of letters of credit and letters of guarantee, and discounts incurred and fees payable in respect of bankers' acceptance and LIBOR advances. Interest on lease obligations for current and future leases, which would have been accounted for as an operating lease on December 31, 2018 is not included in interest expense for purposes of calculating financial covenants. The Company is required to meet the following interest coverage ratios:

Quarters Ended	Interest Coverage ratio minimum permitted
September 30, 2021	Not Tested
December 31, 2021	3.00:1
March 31, 2022	3.00:1
June 30, 2022	3:00:1
September 30, 2022 and thereafter	3.00:1

4. A Funded Debt to Adjusted Bank EBITDA ratio. This refers to total outstanding interest-bearing debt including lease obligations and letters of credit less cash and cash equivalents held with approved financial institutions to Adjusted Bank EBITDA. Adjusted Bank EBITDA means the Net Income (Loss) on a consolidated basis plus or minus: interest expense, the provision for income taxes, depreciation, amortization, deferred income tax expense or recovery, gains or losses on the sale of assets, allowance for doubtful account provisions, non-cash impairment charges, unrealized foreign exchange gains or losses and marking to market hedging instruments, discretionary management bonuses, severance and share based compensation, and any non-typical and non-recurring transactions. Lease expense for current and future finance leases, which would have been accounted for as an operating lease at December 31, 2018, is deducted from net income (loss) when calculating Adjusted Bank EBITDA. The ratio is calculated quarterly on the last day of each fiscal quarter on a four-quarter rolling basis.

Quarters Ended	Funded Debt to Adjusted Bank EBITDA ratio maximum permitted
September 30, 2021	Not Tested
December 31, 2021	4.50:1
March 31, 2022	4.00:1
June 30, 2022	3.50:1
September 30, 2022 and thereafter	3.00:1

5. A Minimum Liquidity Availability. This means the Company must ensure on a consolidated monthly basis during the Covenant Relief Period (as defined in the Credit Facilities) Liquidity Availability of $7.5 million or greater. Liquidity Availability means the applicable Borrowing Base minus the sum of: (a) all outstanding accommodations under the revolving facility and the operating facilities; and (b) all interest, fees, expenses, and other amounts due and payable under the Credit Facilities. The Liquidity Availability was $38.8 million at September 30, 2021 compared to $49.0 million as at December 31, 2020.

The Company complied with all financial and non-financial covenants under its Credit Facilities as at September 30, 2021.

Interest is payable monthly, at the lead syndicate bank's prime lending rate plus 200 basis points to 500 basis points depending on certain financial ratios of the Company. The effective borrowing rate for loans and borrowings for the three and nine months ended September 30, 2021 was 5.03% and 4.87%, respectively (three and nine months ended September 30, 2020 – 4.88% and 4.95%, respectively). The Company has total outstanding letters of credit of $0.03 million. The total amount of Credit Facilities outstanding on September 30, 2021 is as follows:

As at		September 30, 2021		December 31, 2020
Term loan facility	$	189,300	$	210,000
Canadian and U.S. operating lines		20,014		1
Revolving facility		5,000		-
Deferred financing costs		(1,713)		(2,371)
Total Loans and borrowings	$	212,601	$	207,630
Less: current portion of term loan facility		20,963		-
Long term portion of loans and borrowings	$	191,638	$	207,630

The following table displays the movements in loans and borrowings during the nine months ended September 30, 2021:

		(000's)
Balance at January 1, 2021	$	207,630
Issuance of loans and borrowings, net		4,213
Deferred financing incurred		(1,207)
Accretion of deferred financing costs		1,865
Interest payable		247
Unrealized foreign exchange loss		(147)
Balance at September 30, 2021	$	212,601

STEP is expecting compliance with the financial covenants applicable to the Credit Facilities for at least the next twelve months. A decrease or sustained period of materially reduced client spending and demand for STEP's services may result in non-compliance with our financial covenants and reduced liquidity related to changes in our Credit Facilities. Non-compliance with the financial covenants in our Credit Facilities could result in our debt becoming due and payable on demand. Should we anticipate non-compliance we will proactively approach our lending syndicate to amend the Credit Facilities to ensure their availability. There is no certainty that we will be successful in negotiating such amendments.

NOTE 6 – COMMITMENTS

The following table summarizes the Company's estimated commitments that are not included in the condensed consolidated interim statement of financial position related to leases as at September 30, 2021 for the following five years and thereafter:

		2021		2022		2023		2024		2025		Thereafter		Total
Operating expenses for lease obligations(1)	$	378	$	1,467	$	1,461	$	333	$	268	$	43	$	3,950
Short term and low value lease obligations(1)		23		22		-		-		-		-		45
Total commitments	$	401	$	1,489	$	1,461	$	333	$	268	$	43	$	3,995

(1) Includes U.S. obligations at the September 30, 2021 exchange rate of 1 USD = 1.27 CAD.

Operating expenses for lease obligations relate to leases of certain service centers and office space with lease terms of between 1 year and 6 years. The total expense recognized during the three and nine months ended September 30, 2021 for short term and low value lease obligations was $0.4 million and $1.3 million, respectively.

As at September 30, 2021, the Company has $4.0 million (December 31, 2020 - $2.9 million) of commitments related to capital expenditures. These commitments are expected to be incurred in fiscal 2021.

NOTE 7 – SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares. The shares have no par value. All issued shares are fully paid.

	Shares #		Amount
Balance at January 1, 2020	66,942,830	$	428,817
Issued – exercise of share-based instruments	770,994		2,981
Balance at December 31, 2020	67,713,824		431,798
Issued – exercise of share-based instruments	411,312		4,081
Balance at September 30, 2021	**68,125,136**	$	**435,879**

NOTE 8 – SHARE-BASED COMPENSATION

Equity settled share-based instruments

	New stock options	Restricted share units	Performance share units	Prior stock options	Performance warrants	Total
Balance at January 1, 2020	2,121,760	394,971	469,169	3,532,509	7,500,128	14,018,537
Granted	1,696,800	-	-	-	-	1,696,800
Exercised	-	(170,610)	(106,228)	-	-	(276,838)
Forfeited/Expired	(242,459)	(104,839)	(14,960)	(1,728,064)	(4,576,156)	(6,666,478)
Outstanding at December 31, 2020	**3,576,101**	**119,522**	**347,981**	**1,804,445**	**2,923,972**	**8,772,021**
Exercisable at December 31, 2020	717,008	-	75,771	1,804,445	2,400,232	4,997,456

	New stock options	Restricted share units	Performance share units	Prior stock options	Performance warrants	Total
Balance at January 1, 2021	3,576,101	119,522	347,981	1,804,445	2,923,972	8,772,021
Granted	868,622	705,477	-	-	-	1,574,099
Cancelled	-	-	(45,774)	-	-	(45,774)
Exercised	(46,666)	(74,535)	(302,198)	-	-	(423,399)
Forfeited/Expired	(394,582)	(13,134)	(9)	(164,566)	(266,400)	(838,691)
Outstanding at September 30, 2021	**4,003,475**	**737,330**	**-**	**1,639,879**	**2,657,572**	**9,038,256**
Exercisable at September 30, 2021	1,605,801	-	-	1,639,879	2,195,992	5,441,672

Cash settled share-based instruments

	Deferred share units	Cash-settled RSUs	Cash-settled PSUs	Total
Balance at January 1, 2020	546,950	2,305,851	847,379	3,700,180
Granted	1,856,860	954,133	736,500	3,547,493
Cancelled	-	-	19,294	19,294
Exercised	-	(571,076)	(20,151)	(591,227)
Forfeited/Expired	-	(785,070)	(80,106)	(865,176)
Outstanding at December 31, 2020	**2,403,810**	**1,903,838**	**1,502,916**	**5,810,564**
Exercisable at December 31, 2020	-	-	-	-

	Deferred share units	Cash-settled RSUs	Cash-settled PSUs	Total
Balance at January 1, 2021	2,403,810	1,903,838	1,502,916	5,810,564
Granted	151,707	34,402	-	186,109
Exercised	-	(809,513)	(20,155)	(829,668)
Forfeited/Expired	-	(98,555)	(222,057)	(320,612)
Outstanding at September 30, 2021	**2,555,517**	**1,030,172**	**1,260,704**	**4,846,393**
Exercisable at September 30, 2021	-	-	-	-

The aggregate liability for all cash settled share-based instruments of $6.0 million is included in the statement of financial position; $1.3 million in trade and other payables and $4.7 million in other long-term liabilities. At each reporting date, between grant date and settlement date of cash settled share-based instruments, the fair value of the liability is re-measured with any changes in fair value recognized in net (loss) income for the period.

Share-based compensation expense

The composition of share-based compensation expense incurred was:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	**2021**	2020
Prior stock options	**$ -**	$ -	**$ -**	$ 4
New stock options	**120**	226	**550**	798
Performance warrants	**52**	7	**159**	598
Performance share units	**-**	262	**1,225**	648
Restricted share units	**141**	114	**275**	284
Cash-settled deferred share units	**(358)**	166	**2,439**	289
Cash-settled performance share units	**260**	24	**634**	(54)
Cash-settled restricted share units	**70**	122	**1,376**	(579)
Total share-based compensation expense	**$ 285**	$ 921	**$ 6,658**	$ 1,988

NOTE 9 – PER SHARE COMPUTATIONS

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Weighted average number of shares outstanding - basic	68,112,520	67,514,015	67,962,997	67,232,574
Dilutive impact of stock options and performance warrants	-	(990,114)	-	-
Weighted average number of shares outstanding - diluted	68,112,520	66,523,901	67,962,997	67,232,574

For the three months ended September 30, 2021, 1.6 million prior stock options, 2.7 million performance warrants, 4.0 million new stock options, and 0.7 million restricted share units were excluded from the diluted weighted average number of shares calculation as their effect would have been anti-dilutive (September 30, 2020: 1.8 million prior stock options, 3.0 million performance warrants, 1.9 million new stock options, 0.2 million restricted share units, and 0.4 million performance share units).

NOTE 10 – PRESENTATION OF EXPENSES

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Operating expenses				
Employee costs(1)	$ 36,601	$ 14,547	$ 95,384	$ 82,158
Operating expense	35,055	18,622	99,351	72,375
Materials and inventory costs	36,617	14,282	117,448	94,475
	108,273	47,451	312,183	249,008
Depreciation	17,120	19,613	52,821	67,935
Share-based compensation	78	237	1,277	265
Total operating expenses	125,471	67,301	366,281	317,208
Selling, general and administrative expenses				
Employee costs(1)	5,690	2,660	13,348	10,557
General expenses	1,834	2,204	6,989	5,928
	7,524	4,864	20,337	16,485
Allowance for doubtful accounts (recovery) expense	(550)	950	(550)	3,450
Depreciation	359	270	841	864
Share-based compensation	207	684	5,381	1,723
Total selling, general and administrative expenses	$ 7,540	$ 6,768	$ 26,009	$ 22,522

(1) Employee expenses are net of CEWS issued. See Note 2 - Government Grants.

NOTE 11 – FINANCE COSTS, NET

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Interest on loans and borrowings	$ 2,806	$ 2,824	$ 8,142	$ 9,429
Interest on lease obligations	179	225	556	722
Interest income	-	(8)	(48)	-
Accretion of deferred financing charges	907	375	1,865	1,047
Other	16	37	(87)	117
Total finance costs	$ 3,908	$ 3,453	$ 10,428	$ 11,315

NOTE 12 – FINANCIAL INSTRUMENTS

Accounting classifications and fair values

Cash and cash equivalents, trade and other receivables, trade and other payables, income tax receivable and payable, and loans and borrowings are initially recognized at fair value and subsequently measured at amortized cost. The carrying value of cash and cash equivalents, trade and other receivables, income tax receivable and payable, and trade and other payables approximate their fair value due to the relatively short periods to maturity of the instruments. Loans and borrowings utilize floating rates and therefore fair market value approximates carrying value. The Company classifies its financial instruments measured at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy.

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

Credit risk

Credit risk is the risk that a counterparty to a financial asset will not discharge its obligations, resulting in a financial loss to the Company. The majority of the Company's accounts receivable are with clients in the oil and natural gas industry and are subject to normal industry credit risks that include fluctuations in oil and natural gas prices and the ability to secure adequate debt or equity financing. The Company's clients are subject to an internal credit review, together with ongoing monitoring of the amount and age of balances in order to minimize the risk of non-payment. The carrying amount of accounts receivable reflects the maximum credit exposure on this balance and management's assessment of the credit risk associated with its clients. The Company's objective is to minimize credit losses.

The Company's aged trade and other receivables are as follows:

As at		September 30, 2021		December 31, 2020
Current (0 to 30 days from invoice date)	$	67,299	$	28,879
31 - 60 days		18,109		25,154
61 - 90 days		1,103		5,211
91+ days		6,304		6,609
Receivables from trade clients		92,815		65,853
Allowance for doubtful accounts		(6,088)		(6,707)
Other amounts		1,580		4,325
Total trade and other receivables	$	88,307	$	63,471

Liquidity risk

Liquidity risk is the risk that the Company will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Company's objective in managing liquidity risk is to maintain sufficient available resources to meet its liquidity requirements at any point. The Company achieves this by managing its capital spending and maintaining sufficient funds for anticipated short-term spending in the cash and cash equivalents account. See Note 5.

The expected timing of cash outflows relating to financial liabilities on the condensed consolidated interim statement of financial position as at September 30, 2021 are:

	2021	2022	2023	2024	2025	Thereafter	Total
Lease obligations(1)	$ 2,154	$ 4,906	$ 3,741	$ 1,877	$ 541	$ 22	**$ 13,241**
Trade and other payables	68,911	-	-	-	-	-	**68,911**
Loans and borrowings(2)	2,766	38,383	191,756	-	-	-	**232,905**
	$ 73,831	$ 43,289	$ 195,497	$ 1,877	$ 541	$ 22	**$ 315,057**

(1) Includes interest portion of lease obligations.

(2) Includes estimated interest and principal repayments, based on current amounts outstanding and current interest rates at September 30, 2021. Both are variable in nature.

The Company anticipates that its cash on hand, trade accounts receivable and cash provided by operating activities and the available credit facilities, will be adequate to satisfy its liquidity requirements over the next twelve months. Total cash, trade and other receivables and income tax receivable exceeds the obligations in the table above as well as operating and capital commitments.

Market risk

Market risk is the risk that the fair value of future cash flows from financial assets and liabilities will fluctuate due to movements in market rates. Market risk is comprised of interest rate risk, currency risk and other price risks which consist primarily of fluctuations in commodity prices.

NOTE 13 - CONTINGENCIES AND PROVISIONS

Litigation

Periodically, the Company may become involved in, named as a party to, or be the subject of various legal proceedings which are usually related to normal operational or labor issues. The results of such legal proceedings or related matters cannot be determined with certainty. The Company's assessment of the likely outcome of such matters is based on input from internal examination of the facts of the case and advice from external legal advisors, which is based on their judgment of a number of factors including the applicable legal framework and precedents, relevant financial and operational information, and other evidence and facts specific to the matter as known at the time of the assessment. The Company makes any appropriate provisions based on such assessments.

NOTE 14 – OPERATING SEGMENTS

The Company's services are conducted by the Canadian Operations and the U.S. Operations segments. The results of each operating segment are summarized below. Transactions between the segments are recorded at fair value and have been eliminated upon consolidation.

Segmented operating results and activity

Three months ended September 30, 2021	Canadian Operations	U.S. Operations	Corporate	Total
Revenue				
Fracturing	$ 65,336	$ 29,501	$ -	$ 94,837
Coiled tubing	18,210	20,188	-	38,398
Total revenue	83,546	49,689	-	133,235
Expenses				
Operating expenses	74,216	50,945	310	125,471
Selling, general and administrative	1,748	2,340	3,452	7,540
Results from operating activities	7,582	(3,596)	(3,762)	224
Finance costs	-	-	3,908	3,908
Foreign exchange (gain) loss	(352)	(10)	-	(362)
(Gain) loss on disposal of property and equipment	(124)	(22)	-	(146)
Amortization of intangible assets	10	106	-	116
Income (loss) before income tax	$ 8,048	$ (3,670)	$ (7,670)	$ (3,292)
Capital expenditures (1)	$ 4,215	$ 5,293	$ -	$ 9,508
Total assets as at September 30, 2021	$ 239,767	$ 242,537	$ 909	$ 483,213
Total liabilities as at September 30, 2021	$ 244,638	$ 54,916	$ -	$ 299,554

Three months ended September 30, 2020	Canadian Operations	U.S. Operations	Corporate	Total
Revenue				
Fracturing	$ 29,425	$ 9,363	$ -	$ 38,788
Coiled tubing	15,424	8,151	-	23,575
Total revenue	44,849	17,514	-	62,363
Expenses				
Operating expenses	36,443	30,739	119	67,301
Selling, general and administrative	1,306	1,555	3,907	6,768
Results from operating activities	7,100	(14,780)	(4,026)	(11,706)
Finance costs	-	-	3,453	3,453
Foreign exchange (gain) loss	(895)	4	-	(891)
(Gain) loss on disposal of property and equipment	(1,396)	(626)	-	(2,022)
Amortization of intangible assets	10	120	-	130
Income (loss) before income tax	$ 9,381	$ (14,278)	$ (7,479)	$ (12,376)
Capital expenditures (1)	$ 1,285	$ 64	$ -	$ 1,349
Total assets as at September 30, 2020	$ 251,903	$ 249,232	$ 1,286	$ 502,421
Total liabilities as at September 30, 2020	$ 240,779	$ 31,267	$ -	$ 272,046

(1) Capital expenditures include non-cash expenditures from the addition of leased right-of-use assets.

Nine months ended September 30, 2021		Canadian Operations		U.S. Operations		Corporate		Total
Revenue								
Fracturing	$	208,486	$	64,962	$	-	$	273,448
Coiled tubing		57,587		46,558		-		104,145
Total revenue		266,073		111,520		-		377,593
Expenses								
Operating expenses		236,287		129,193		801		366,281
Selling, general and administrative		5,293		5,292		15,424		26,009
Results from operating activities		24,493		(22,965)		(16,225)		(14,697)
Finance costs		-		-		10,428		10,428
Foreign exchange (gain) loss		(378)		(32)		-		(410)
(Gain) loss on disposal of property and equipment		(381)		50		-		(331)
Amortization of intangible assets		30		313		-		343
Income (loss) before income tax	$	25,222	$	(23,296)	$	(26,653)	$	(24,727)
Capital expenditures (1)	$	15,576	$	14,763	$	-	$	30,339
Total assets as at September 30, 2021	$	239,767	$	242,537	$	909	$	483,213
Total liabilities as at September 30, 2021	$	244,638	$	54,916	$	-	$	299,554

Nine months ended September 30, 2020		Canadian Operations		U.S. Operations		Corporate		Total
Revenue								
Fracturing	$	116,374	$	90,287	$	-	$	206,661
Coiled tubing		51,112		39,604		-		90,716
Total revenue		167,486		129,891		-		297,377
Expenses								
Operating expenses		159,950		156,366		892		317,208
Selling, general and administrative		4,260		5,508		12,754		22,522
Results from operating activities		3,276		(31,983)		(13,646)		(42,353)
Finance costs		-		-		11,315		11,315
Foreign exchange (gain) loss		330		(26)		-		304
(Gain) loss on disposal of property and equipment		(2,343)		(694)		-		(3,037)
Amortization of intangible assets		30		361		-		391
Impairment		59,245		13,100		-		72,345
Income (loss) before income tax	$	(53,986)	$	(44,724)	$	(24,961)	$	(123,671)
Capital expenditures (1)	$	6,544	$	11,737	$	-	$	18,281
Total assets as at September 30, 2020	$	251,903	$	249,232	$	1,286	$	502,421
Total liabilities as at September 30, 2020	$	240,779	$	31,267	$	-	$	272,046

(1) Capital expenditures include non-cash expenditures from the addition of leased right-of-use assets.

CORPORATE INFORMATION

Management

Regan Davis
Chief Executive Officer

Michael Kelly
Executive Vice-President and Chief Financial Officer

Steve Glanville
President and Chief Operating Officer

Rory Thompson
President, Canadian Operations

Brock Duhon
President, U.S. Operations

Klaas Deemter
Senior Vice-President, Finance

Lori McLeod-Hill
Vice-President, Finance

Joshua Kane
Vice-President, Legal and General Counsel

Directors

Douglas Freel (1)

Evelyn Angelle (2)

Regan Davis (3)(4)

Jeremy Gackle (5)

Donna Garbutt (6)(7)

James Harbilas (8)(9)

Jason Skehar (2)(4)(9)

1. *Chair of the Board*
2. *Member of the Audit Committee*
3. *Chief Executive Officer*
4. *Member of the Health, Safety and Environment Committee*
5. *Chair of the Compensation and Corporate Governance Committee*
6. *Lead Director*
7. *Chair of the Health, Safety and Environment Committee*
8. *Chair of the Audit Committee*
9. *Member of the Compensation and Corporate Governance Committee*

Corporate office

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Trustee and transfer agent

TSX Trust Company
Calgary, Alberta and Toronto, Ontario

Bank

ATB Corporate Financial Services

Auditors

KPMG LLP
Chartered Professional Accountants
Calgary, Alberta

Legal Counsel

Stikeman Elliott LLP

Stock Symbol

"STEP"
Toronto Stock Exchange